

## Jan. 12<sup>th</sup> Brief: Debt Service

### CAPITAL FACILITIES AND GOVERNMENT OPERATIONS

#### SUMMARY

Debt Service is made up of interest and principal due on the state's bonded indebtedness. The state uses long-term debt to finance large capital expenditures including new construction, major remodeling and highway projects. Dedicated revenue streams such as enterprise fund revenue or dedicated lease payments secure some bonds. Debt service on revenue bonds and general obligation bonds is combined in this line item.

#### ISSUES AND RECOMMENDATIONS

##### ***Outstanding General Obligation (G.O.) Bonds***

The schedule at right does not include bonds authorized by the Legislature but not yet issued, such as \$1.06 billion for highways, \$26.3 million for Salt Lake County highways, \$110 million for USTAR, and other miscellaneous projects.

##### ***Can bonds be paid off early?***

Under our current schedule, Utah will pay off one bond (series 1998A) on July 1, 2008 and another (2001B) on July 1, 2009. Any bond can be legally defeased earlier than its final maturity date.

Although a defeasance is generally accomplished by a refunding transaction (which the state has already taken advantage of during times of low interest rates), a defeasance can also be accomplished with cash. Doing so would involve setting aside enough cash in an escrow account to meet all payments of principal and interest on the outstanding bonds as they become due, thereby instantly removing the debt from the balance sheet..

##### ***FY 2010 Adjustments to Debt Service***

General Fund and Education Funds are typically used to pay the debt service on the building portions of the General Obligation bonds. Centennial Highway Funds and County of the First Class funds are used to pay the debt service on the highway portions of the bonds.

The FY 2010 the debt service on buildings will require \$500,000 less General Fund while the debt service on highways will require \$3,195,700 more Centennial Highway Fund and \$3,954,600 more County of the First Class funds. Any new bonding in FY 2010 will require additions to the debt service line item from the appropriate funding source.

##### ***Non-lapsing Balance***

The Debt Service line item finished FY 2008 with a \$26.6 million non-lapsing balance. Of that amount, \$5.8 million is committed to pay future lease revenue bonds. The Legislature decreased the nonlapsing balance by \$12 million in FY 2009 and replaced \$7 million of ongoing General Fund with one time nonlapsing balances of \$7 million. The chart at right shows the five year history of the non-lapsing balance.

Outstanding GO Bond Indebtedness

Series	Purpose	Original Amount	Final Maturity Date	Outstanding as of Jan. 1, 2009
2001B*	Highways	\$348,000,000	July 1, 2009	\$37,650,000
2002A*	Various	\$281,200,000	July 1, 2011	\$18,075,000
2002B	Refunding	\$253,100,000	July 1, 2012	\$221,125,000
2003A*	Various	\$407,405,000	July 1, 2013	\$234,125,000
2004A	Refunding	\$314,775,000	July 1, 2016	\$314,775,000
2004B	Various	\$140,635,000	July 1, 2019	\$101,660,000
2007A	Various	\$75,000,000	July 1, 2014	\$66,400,000
Subtotal Principal Amount of GO Debt				\$993,810,000
Plus Unamortized Original Issue Bond Premiums				\$42,632,400
Less Deferred Amount on Refunding				(\$11,061,900)
Total GO Debt				\$1,025,380,500

\*Portions refunded in subsequent bond issues

##### **Non-lapsing Balance**

FY 2005	12,635,900
FY 2006	20,722,200
FY 2007	23,534,200
FY 2008	26,569,300
FY 2009 Est.	8,116,900

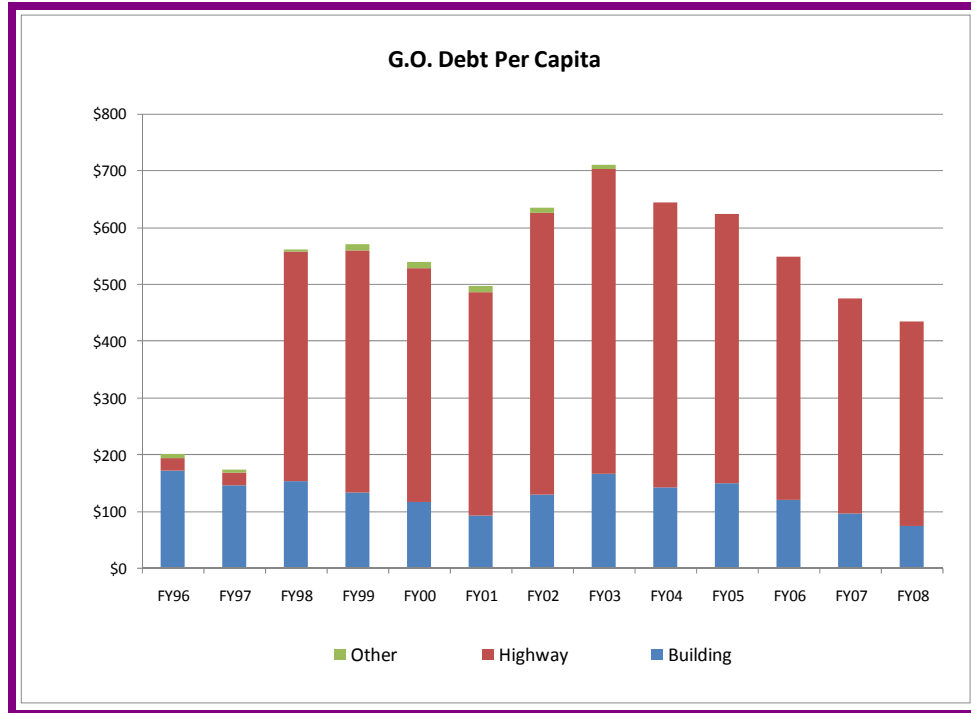
### Utah's "Triple A" Rating

The three national rating agencies (Moody's Investor Service, Fitch Ratings, and Standard and Poor's) provide ratings of credit worthiness of all states. At this time only seven states merit a "Triple A" rating from all three agencies: Delaware, Georgia, Maryland, Missouri, North Carolina, Utah, and Virginia.

Utah maintains an "AAA" rating for many reasons; however, a large part of the rating may be attributable to the commitment to good management shown by both the Executive and Legislative Branches. Utah's track record of showing a willingness to manage its debt seems to be as important as its ability to pay its debt.

### ACCOUNTABILITY DETAIL

#### General Obligation Debt Per Capita



While the state's population has grown by 25.8 percent in the last ten years (since FY 1998), the state's per capita general obligation debt has decreased 23.9 percent. In FY 1999 the state's general obligation debt peaked at \$570.7 million as a result of the I-15 reconstruction project in Salt Lake County.

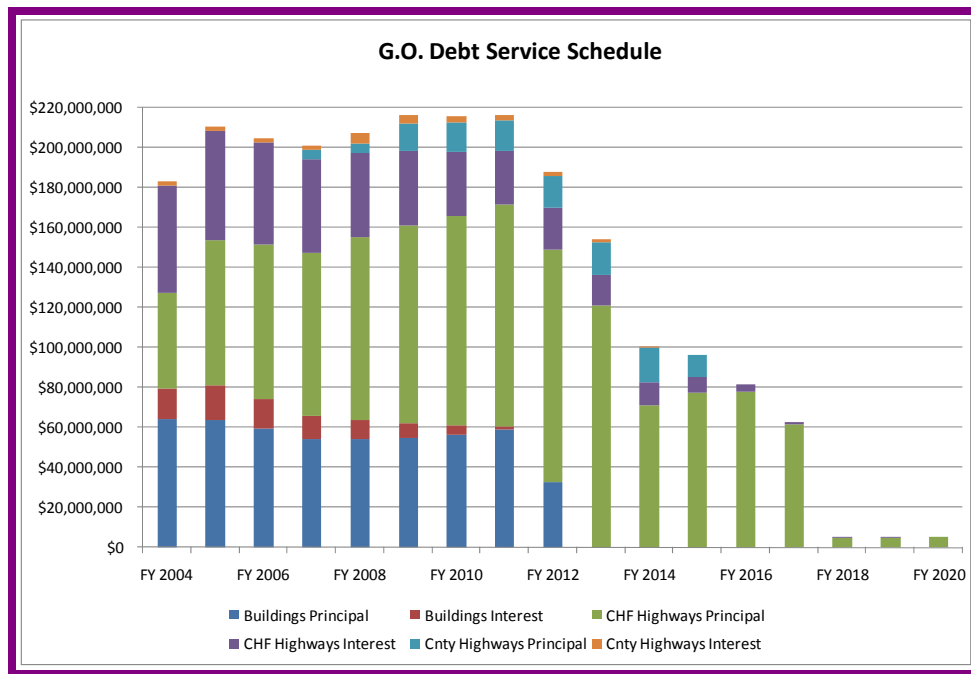
#### Constitutional and Statutory Bonding Capacity

Remaining General Obligation Debt Capacity				
	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>
Constitutional	\$1,196,499,000	\$1,547,896,900	\$2,211,169,800	\$3,034,469,600
Statutory	\$249,751,600	\$385,958,100	\$531,055,800	\$681,905,400

The state's constitutional debt limit caps total general obligation debt at 1.5 percent of the value of the state's taxable property. The state's statutory debt limit further caps general obligation debt to 45 percent of the allowable appropriations limit unless approved by more than two-thirds of the Legislature. However, statute excludes most highway bonds from being subject to the statutory debt limitation.

#### Debt Service Schedule of Outstanding G.O. Bonds

## CAPITAL FACILITIES AND GOVERNMENT OPERATIONS



In FY 2009 the state will pay off \$167.7 million of general obligation bond principal and will pay \$48.9 million in interest on general obligation bond debt. In FY 2010 the state will pay off \$175.5 million of general obligation bonds (\$56.4 million for buildings plus \$119.1M for highways), and will pay \$40.6 million in interest on general obligation bond debt. This chart does not reflect bonds authorized by the Legislature, but not yet issued.

### LEGISLATIVE ACTION

The Analyst recommends the Legislature consider adopting:

1. A FY 2009 one-time reduction of \$1,000,000 from the Nonlapsing balance
2. A FY 2010 ongoing base budget reduction of \$500,000 from the General Fund

### BUDGET DETAIL TABLE

Debt Service								
Sources of Finance	FY 2007 Actual	FY 2008 Actual	FY 2009 Approp	7.5% Reduction	FY 2009 Revised	FY 2010 Base	15% Reduction	FY 2010 Revised
General Fund	51,679,700	51,679,700	44,679,700	0	44,679,700	44,679,700	(500,000)	44,179,700
General Fund, One-time	0	0	(12,000,000)	(1,000,000)	(13,000,000)	0	0	0
Education Fund	17,164,300	17,164,300	17,164,300	0	17,164,300	17,164,300	0	17,164,300
Centennial Highway Fund	127,976,800	127,976,800	133,826,800	0	133,826,800	133,826,800	0	133,826,800
Centennial Highway Fund, One-time	0	3,650,000	0	0	0	0	0	0
Dedicated Credits Revenue	30,207,800	125,527,800	29,820,000	0	29,820,000	21,200,000	0	21,200,000
Dedicated Credits - GO Bonds	15,200	3,261,900	0	0	0	0	0	0
TFR - County of First Class State Hwy	7,204,400	6,950,000	14,100,000	0	14,100,000	14,100,000	0	14,100,000
Transfers	3,574,200	0	0	0	0	0	0	0
Beginning Nonlapsing	20,722,200	23,534,200	38,569,300	0	38,569,300	7,454,900	0	7,454,900
Closing Nonlapsing	(23,534,200)	(26,569,300)	(7,454,900)	1,000,000	(6,454,900)	(7,516,500)	0	(7,516,500)
<b>Total</b>	<b>235,010,400</b>	<b>333,175,400</b>	<b>258,705,200</b>	<b>0</b>	<b>258,705,200</b>	<b>230,909,200</b>	<b>(500,000)</b>	<b>230,409,200</b>
<b>Programs</b>								
Debt Service	235,010,400	333,175,400	258,705,200	0	258,705,200	230,909,200	(500,000)	230,409,200
	235,010,400	333,175,400	258,705,200	0	258,705,200	230,909,200	(500,000)	230,409,200
<b>Categories of Expenditure</b>								
Current Expense	235,010,400	333,175,400	258,705,200	0	258,705,200	230,909,200	(500,000)	230,409,200
	235,010,400	333,175,400	258,705,200	0	258,705,200	230,909,200	(500,000)	230,409,200